City of Westminster

Cabinet Report

Decision Maker:	Cabinet Member for Finance, Property and Corporate Services
Date:	30 October 2017
Classification:	General Release
Title:	Integrated Investment Framework
Wards Affected:	All
Policy Context:	To manage the Council's finances prudently and efficiently.
Cabinet Member	Cllr T Mitchell, Cabinet Member for Finance, Property and Corporate Services
Financial Summary:	Implementation of an Integrated Investment Framework will influence investment decisions going forwards and deliver added value to Council services. This report identifies the potential for improved returns aspiring to match inflation in a full year compared with the current forecast return of 0.55%.
Report of:	Steven Mair, City Treasurer

EXECUTIVE SUMMARY

1.1 It has been identified that the Council presently does not have a comprehensive strategic framework for bringing together and managing all of its investments.

1.2 The Council holds £1.3bn of short term cash based investments, managed under the Treasury Management Strategy, which passes through Scrutiny, Cabinet and Full Council on an annual basis. The Council also owns a significant number of Investment Properties currently valued at £455m, which are considered as part of the Capital Programme, and holds longer term investments, mostly Government Bonds and equity shareholdings. In addition the Council is responsible for managing the Pension Fund which has net assets of £1.3bn, and operates under the Investment Strategy set by the Pensions Committee.

1.3 In summary, the Council holds £1.3bn of investments for less than one year in high grade but very liquid investments generating a forecast return of 0.55% and £0.4bn in much longer-term illiquid property investments generating around 4.2%. Compared to the current inflation rate as measured by CPI of 2.7% (as at August 2017) treasury investments are depreciating in value. The £1.3bn is 88% concentrated in the banking sector, and the property portfolio is concentrated within the borough. There is currently therefore limited diversification in the current investment portfolio.

1.4 This report sets out:

- the Council's strategic objectives in respect of risk management, and its attitude towards investment risk;
- current levels of investment activity;
- proposals for an Integrated Investment Framework for the Council going forward which seek to diversify the risk and thus future-proof the Council against possible future economic downturns;
- actions to be taken in connection with implementing this Framework, if agreed.

RECOMMENDATIONS

2 That the Council:

2.1.1 Approve and implement the Integrated Investment Framework set out in this Report (to be reviewed on an annual basis).

2.1.2 Approve that the target for the overall return on Council investments should aspire to match inflation.

2.1.3 Approve that the benefits of investing in the Pension Fund should be used as a benchmark when evaluating other investments.

2.1.4 Adopt the asset allocation percentages set out in the Framework and work towards achieving these.

2.1.5 Approve that the overarching objective of this Framework is to achieve an overall return on Council investments aspiring to match inflation, or to reduce costs and liabilities at an equivalent rate whilst maintaining adequate cash balances for operational purposes and not exposing the capital value of investments to unnecessary risk.

2.1.6 Approve that investments in out-of-borough property developments should be considered individually and should outweigh the benefits of investing in-borough (which can have a number of non-commercial benefits e.g. place making) and in a diversified property fund. Individual decisions will be subject to Cabinet Member approval.

2.1.7 Approve that the property and alternative asset allocation should focus on in-borough, with out of borough options being explored as and when they arise and subject to Cabinet Member approval.

2.1.8 Approve the establishment of an Investment Executive, comprising the membership set out in paragraph 51, to implement, monitor and report on the investment strategy. The Investment Executive will meet half yearly supplemented with ad hoc calls and meetings in times of change.

INTEGRATED INVESTMENT FRAMEWORK

BACKGROUND

3 The Council is responsible for managing cashflows and assets exceeding £7bn at 31 March 2017. At 18 August 2017 investments totalled £1.7bn comprising £1.3bn of short-term cash investments and £0.4bn of investment property. It is important that the Council is able to take a holistic view of its all its investment pools and aligns them with its funding needs and goals. The scale of these figures makes their positive and proactive financial management very important. Investments held as part of the Council's pension fund are managed under a separate regulatory framework and are outside the scope of this report from the point of view of investment management

4 In previous years the Council's Investment Strategy formed part of the Treasury Management Strategy Statement (TMSS) which is developed and updated as part of the Council's Medium Term Financial Plan. The TMSS has tended to focus on the policies for placing short term cash based investments, whilst decisions regarding other types of longer term investment have been considered on an individual basis as opportunities arose.

5 While the assets are distributed across a range of areas the complexity of the Council and its funding needs means that there is a need for the assets to be considered collectively and holistically, as in the aggregate they represent a very significant pool of resources. More specifically in view of:

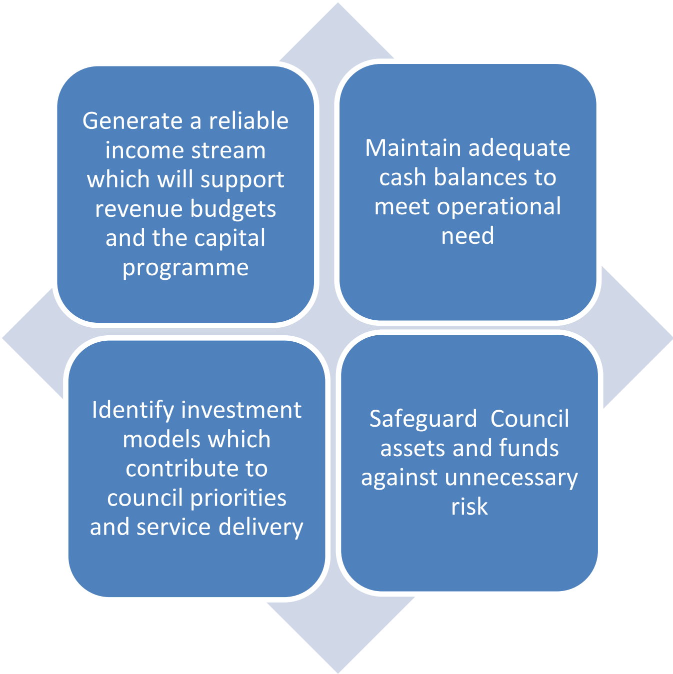
- the significant value of investments held by the Council
- their increasing importance in terms of generating income which supports revenue budgets and capital investment
- their potential to add value and contribute towards corporate objectives in their own right

6 It was felt appropriate to give this aspect of financial management more detailed consideration and to develop a more integrated approach to investment decision making.

STRATEGIC CONTEXT

7 The Council's key focus is on delivering high quality services within the context of reduced government funding and increased demand for services due to demographic change. The Council also needs to have regard to the longer term, given its moral and legal responsibilities regarding sustainability and stewardship of public assets.

8 The role of investment management is to support service delivery by balancing four key strategic objectives as follows:



9 An appropriate investment strategy which balances the above objectives is therefore key.

10 The Council is exposed to possible future events such as

- The potential impact of an economic downturn following Brexit which could reduce tourism income and increase demand for Council services
- more general economic dynamics because of the multiple links that the Council has into the economy through its service and revenue streams
- increases to pay and price inflation which will place cost pressure on both revenue and capital budgets
- the pensions deficit which may result in increased employer contribution rates (although the Council has begun to address this)
- interest rate changes which could materially impact on the cost of for example the capital programme
- government funding policy changes

11 Ideally the investment strategy should be aimed at generating future income to address these longer term risks.

ACCEPTABLE RISK LEVELS

12 An appropriate strategy which balances the above objectives consists of one which:

- focuses on investments with a reasonable return based on reasonable risk;
- includes other Treasury opportunities not covered in the TMSS; and
- likewise investigates property investment opportunities

13 The suggested policy going forwards is that the Council will generally seek to obtain the maximum amount of income consistent with a low level of risk and will be willing to accept a lower level of income in exchange for a low risk product which does not expose the capital value of the investment to potential loss.

14 By more proactive and appropriate management of the Council's investment portfolio, an increased level of income can be achieved but also ensuring that appropriate security is maintained over the Council's assets.

15 Such investments shall be separately identified in Council records and will be subject to the Council's detailed budget monitoring and review as a result

CURRENT INVESTMENT ACTIVITY

16 The Council is responsible for managing two broad investment portfolios:

- The Council investment portfolio of £1.7bn comprising £1.3bn of short-term cash-based investments generating a forecast return of 0.55%, and the investment property portfolio of £0.4bn generating 4.2%, both managed entirely separately; and

- The City of Westminster Pension Fund of £1.3bn which generates an average annual return of 9% measured over the past 10 years.

17 The Council investment portfolio (see below) is larger than any other local authority in the UK, exceeding not just the Council's own pension fund but over 40% of all local authority pension funds in England, Scotland and Wales.

Type of Investment	Expected rate of return	Value at 18 August 2017 £ million	Value at 31 March 2017 £ million	Value at 31 March 2016 £ million
Short term investments (mostly overnight cash deposits, money market etc.)	0.55%	1,233	743	515
Long term investments – mostly shareholdings in controlled companies such as CityWest Homes, Westminster Community Homes, WestCo trading etc.	Under 0.5%	41	41	46
Pooled property fund (Real Lettings)	6.0%	7	0	0
Investment properties	4.2%	455	455	405
Total		**1,736**	**1,239**	**966**

18 The Pension Fund is a separate legal entity and, therefore, its assets cannot fit within the wider investment framework of the Council. However, despite this ring-fencing, the pension fund has a significant second-order impact on the Council's financial position and funding needs, because of the existing deficit in the scheme, and the contribution plan in place to close this over a 19 year horizon.

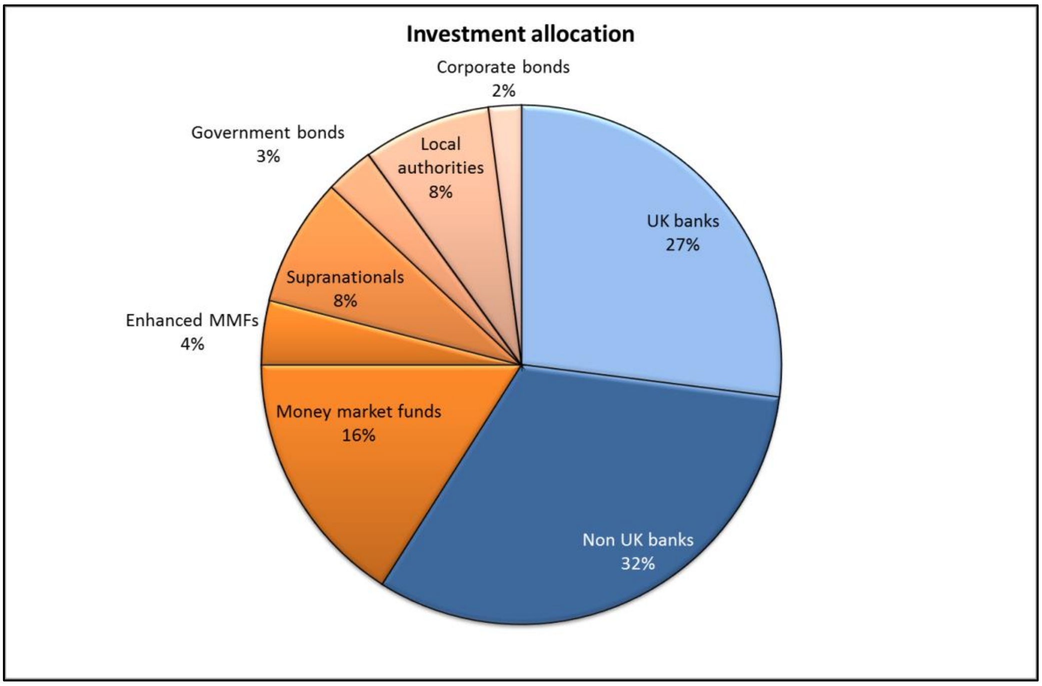
19 Although the funding position of the Pension Fund has improved from 74% at March 2013 to 80% at March 2016, this still represents a liability of £260m. To close the deficit, the Council is injecting £30m of one-off resources and increasing its revenue contributions by £4m per annum cumulatively for each of this and the next two years and maintaining those contributions thereafter until the deficit is resolved.

20 The funding of the Pension Fund assumes an annualized rate of return of 5.1% over the 19 year recovery period as represented in the discount rate used to value the pension fund liabilities. From the Council perspective as an employer paying into the Pension Fund the £260m deficit represents a form of borrowing with an interest rate set at the discount rate of 5.1%.

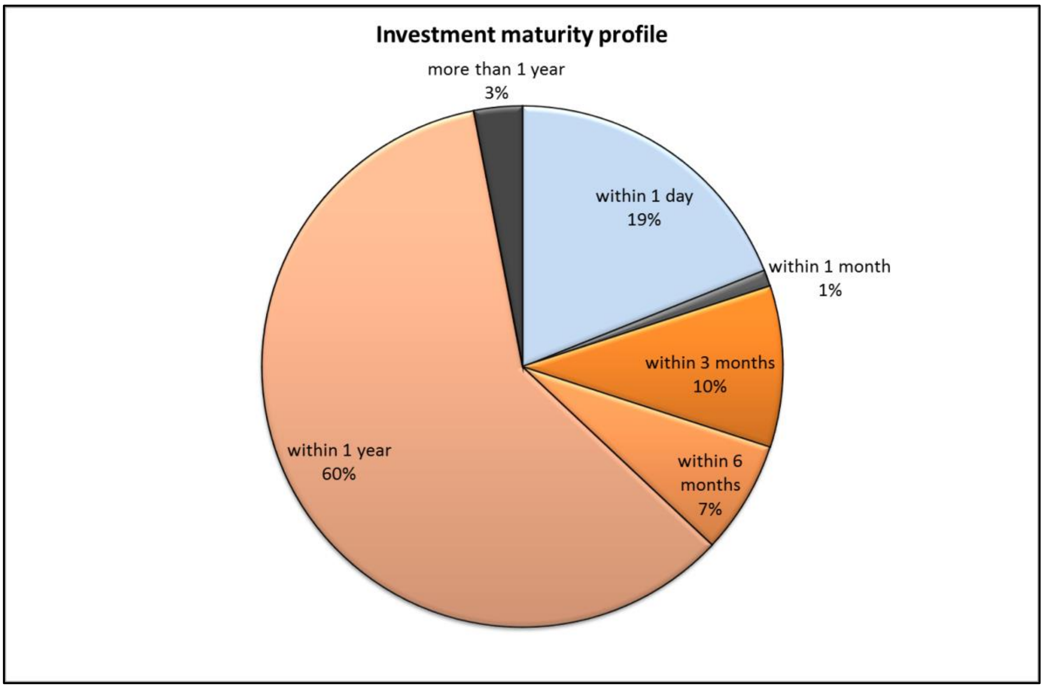
SHORT-TERM INVESTMENTS

21 In line with the current investment strategy, the treasury portfolio of short term cash-based investments is concentrated in the banking sector with almost 60% in bank

deposits, 20% in money market funds and 8% in supranational banks as shown below.



22 97% of investments mature within 12 months as shown below. The lone asset maturing longer is a 5 year gilt maturing in 2018.



23 In line with the above, the portfolio is entirely investment grade and heavily biased toward the top end with 69% of instruments AAA or AA rated, a further 30% A rated with only one BBB rated investment with RBS.

24 This approach provides flexibility for the Council at very low levels of risk, but tends to result in fairly low returns, typically less than 0.5%, and an approach to investment management which focuses very much on short term return as opposed to longer term considerations. Overall, this points to the lack of an optimisation for maximising the yield vs. credit rating.

INVESTMENT PROPERTY

25 Commercial property investment provides investors with:

- a higher income return than equities, bonds or cash
- a secure, regular income with income growth prospects to hedge against inflation
- capital value appreciation
- asset management opportunities to further increase rental and capital growth
- an underlying real asset with minimum capital value

26 However, as with any investment there are associated risks:

- illiquidity – property is a ‘bricks and mortar’ asset which takes time to sell/buy
- threat to income security if the tenancy fails and the property cannot be re-let.
- capital depreciation, if the asset is not properly managed and kept in good repair

27 Geographically the investment property portfolio is concentrated within the borough, which self-evidently tends to concentrate the economic risk in one area. Commercial property yields are currently ranging from 3.25% in central London to 5.5% in the regions (see Appendix C). In-house investment property generated 4.2% yield (excl. capital growth) in 2016/17.

28 Currently the property portfolio is heavily fragmented due to its historical incremental build-up with a heavy concentration in car parks which generates 52% of total income, followed by offices generating 29% and other smaller units generating the remainder.

29 The car park assets which provide a steady income stream and offer value added opportunities through potential change of use and redevelopment over time. The Council is focused on delivering best returns which acquiring new assets and redevelopment of assets to improve the quality of the portfolio should help to achieve.

30 Funding for £50m of potential investment in new property investment schemes has been approved as part of the capital programme. Schemes funded by this will go ahead if they generate additional income after full due diligence.

31 A more focused property investment strategy is likely to increase returns by:

- setting out more clearly the process and goals of the strategy;
- which would provide a framework for rationalising lot size over time which improve both efficiency and reduce the costs of managing the portfolio;
- targeting properties with a modern specification and minimal management costs.
- diversification of risk, sector and geography.
- improvement of asset quality and increase in average asset value

32 An appropriate Property investment strategy will be agreed with members once the overall Investment objectives of the Council are agreed. Focus should be on optimising performance of the Council's existing portfolio and acquiring

adjacent/adjoining assets which would improve performance and delivery of active asset management of the portfolio.

LONG-TERM INVESTMENTS

33 Prior to 2004, Councils were only permitted to make loans to, or invest in, other local authorities, the Government, banks or building societies. The introduction of the Prudential Code has relaxed these restrictions and gave local authorities the flexibility to invest in much more innovative methods of service delivery and income generation by:

- establishing, controlling and participating in limited companies trading for profit; and
- entering into loans and investments with “non-specified” counterparties including limited companies and not-for-profit organisations.

These are classed as non-specified investments under the DCLG’s statutory guidance for local government investments.

34 No general legal restrictions are placed on the value, length or nature of such investments and the only proviso is that investments are placed in accordance with investment strategies formally approved by members. The City Council’s Treasury Management Strategy expressly permits new investments in non-specified institutions providing that Cabinet Member approval is obtained.

35 Non-specified investments include vehicles such as infrastructure and housing which offer additional possibilities. As well as generating additional income they can, in and of themselves, make a contribution to corporate priorities and improve service delivery. They also diversify investment risk away from the banking sector and can offer more flexibility in terms of length of investment and timing of drawdowns.

36 This type of investment is becoming more common in local government with authorities investing in projects to increase low cost and affordable housing, improve transport infrastructure, and support sustainable energy programmes as well as pooled property or equity investments, venture capital funds to support new and growing businesses, bond issues and unit trusts.

37 Such investments typically offer returns of 4%-8%. However, they also tend to carry more complex risk profiles and attract higher transaction/due diligence costs, and are unlikely to have a published unit price or credit rating. The onus therefore falls on the Council to make its own evaluation of the investment and whether or not to proceed.

38 The Council's current portfolio of non-specified investments is:

	Value at 18 August 2017 £ million	Value at 31 March 2017 £ million	Expected return
Investments in companies controlled or significantly influenced by the Council	14.4	14.4	Nil direct to the Council, profits made are usually reinvested in the business
Government (UK) gilts	25.6	25.6	0.5%
Other arms' length investments in companies	1.3	1.3	Occasional dividend income but no reliable income stream
Pooled property fund (Real Lettings)	6.6	0.0	6% over 7 year life of fund
Total	**47.9**	**41.3**	

39 By increasing its holdings in this area the Council would reduce its reliance on the banking sector and facilitate the move towards a more long-term investment profile, as discussed below.

40 Identifying and investigating individual investment opportunities across multiple markets can be both time consuming and expensive. Therefore appointing a Fund Manager to manage a "bundle" of separate investments across a range of markets can be cost effective and spread risk by taking assurance on the fund manager's own due diligence processes.

LIABILITIES AND CASHFLOW NEEDS

41 In order to assess appropriate changes to the treasury portfolio, it is important to also consider the council's liabilities and cashflow needs over time. This is imperative as the purpose of investing the assets is to better match upcoming cashflow needs and also to minimize funding gaps.

42 The Council has a significant capital programme totalling more than £2.1bn over the next five years. This will be funded from £0.9bn of external funding leaving a net funding requirement of £1.2bn, as set out below.

	Forecast	Five year plan					Future	Total
	2016/17	2017/18	2018/19	20219/20	2020/21	2021/22	years to	
	Within 1 yr	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	more than 5yrs		
	£m	£m	£m	£m	£m	£m	£m	£m
Total expenditure	151	366	328	217	158	166	744	2,130
Total funding	(78)	(220)	(140)	(60)	(154)	(57)	(184)	(893)
Net Funding Requirement	**73**	**146**	**188**	**157**	**4**	**109**	**560**	**1,237**
% of treasury portfolio set against funding needs	6%	12%	15%	13%	0%	9%	45%	100%
Suggested maturity allocation	**10%**	**15%**	**15%**	**10%**	**5%**	**10%**	**35%**	**100%**

Source: capital programme 2016/17-2030/31

INVESTMENT ALLOCATION

43 The Council's investment portfolio is currently polarised between very short term cash based short-term investments on the one hand and commercial property, pension investments and equity shareholdings which tend to be held for perpetuity or at least 20 years or more.

44 Using the net funding analysis above rounded to the nearest 5% provides a suggested allocation by time which more appropriately reflects the Council's cashflow needs.

45 Therefore the proposed approach going forward is to move investment allocations towards agreed percentages as follows:

Type of investment	Current allocation	Proposed allocation
Short-term investments – less than one year	60%	10%
Short-term investments – less than two years	0%	15%
Short-term investments – less than three years	0%	15%
Short-term investments – less than four years	0%	10%
Short-term investments – less than five years	0%	5%
More than five years:		
Property	37%	45%
Alternative investments	3%	

OPTIONS FOR INCREASING YIELD

46 This will be achieved by making the following changes to the investment portfolio over the next 6-9 months.

Change	Expected impact	Risk
Treasury Management		
1. Lengthen the maturity structure from the current average 7 months to a target average maturity of 2 years	By investing in longer maturity assets with same credit quality, some additional yield may be generated, but the gilts curve is relatively flat, so yields would likely increase by about 0.3%.	Going out to longer dated bank deposits beyond 5 years would increase counter party risk to individual bank, which becomes more of a risk if there is a future financial crisis
2. Widen the credit quality of investments by moving from the current average rating of AA to A. This would allow the Council to invest a greater number of instruments with a moderate amount of credit risk (eg corporate bonds) that have maturity beyond one year. Yields tend to be higher to compensate for the higher perceived risk and reduced liquidity	For example a portfolio of short duration investment grade sterling denominated credit benchmarked to the Barclays Sterling Corporate Bond index of 3-5 year maturities yields 1.24% currently, which is more than double the yield on the current treasury portfolio. The average credit rating of the index is BBB+/A	By diversifying away from bank deposits, although marginally lower credit rating, this would spread the risk in the event of a future financial crisis.
3. Add more credit sub-asset classes such as asset backed securities (ABS). These are typically listed rated bonds which can be traded, but liquidity varies depending on the issue. Types of credit include car loans, credit cards and residential mortgage backed securities (RMBSs)	Yields are in the range of 0.7-0.9% greater than the current treasury portfolio. Yields can be higher for AA or A rated asset backed securities eg a 3-5 year A rated portfolio could yield 2.25%.	The extra yield reflects the potential complexity of these instruments, but since the last financial crisis regulation has made asset backed securities more secure through risk retention rules, increased ratings scrutiny and credit protection, reflecting government policy increase lending to households and small businesses.

Change	Expected impact	Risk
Investment property		
4. Adopt a more focussed property investment strategy by reducing the number of properties and increasing the lot size to efficiency gains and reduce the cost of management and maintenance. Given the added illiquidity of property investment, this only makes sense of the Council can achieve materially higher yields than the treasury portfolio and meet other objectives such as reducing risk (eg inflation) or help meet statutory duties. Therefore new acquisitions should: • target a yield of at least 5%; • widen the scope of investments from in-borough to at least within the M25 region; • ensure the sale of resultant assets to repay any associated financing costs within an envelope of 5 years.	Increased return on property portfolio of at least 0.8%.	Adverse property markets may result in a fall in sale value
5. Expanding the use of fund structures to deliver specialist functions such as supported living housing, homeless shelters, asylum housing etc. This would meet statutory duties and generate a return	Yields from public social housing real estate investment trusts (REITs), such as the Real Lettings fund which the Council is currently invested in are generating returns of 5-6.5%	By using a fund structure, this arms-length distances the Council from the costs of directly managing such property and investment is secured on the underlying property.
Alternative assets		
These fall outside traditional investments such as listed equities and bonds, and include renewable energy, infrastructure and commodities.		
A multi-alternatives approach could comprise investment in private asset-backed debt (such as pools of mortgages, car loans, credit card loans, aircraft leases, invoices, debt factoring and SME loans), direct lending and commercial real estate debt	Private asset backed debt tends to yield 4-6% with a maturity of 2-5 years. Direct lending and commercial real estate debt tend to generate 7-12% with a similar credit profile to bank loans.	Risks can be managed by appropriate due diligence such as credit analysis. This type of investment can be fairly specialised, therefore this may be an area which would outsourced to a fund manager
Pension Fund		
Pension Deficit – invest an additional £50-60m in the pension fund over current contributions.	This would reduce the interest on the pension fund deficit by 16-19% and thus improve the funding position by 18-22%, providing ongoing revenue savings of £1.1-1.5m per annum	Adverse markets in UK and abroad increase pensions deficit notwithstanding the additional investment made

OVERALL INVESTMENT TARGET

47 It is estimated that, after taking the actions outlined above, the Council should be able to achieve significant improvements in the overall level of investment income generated to support Council services.

48 The overarching objective of this Framework is to increase income generated from Council investments aspiring to match inflation in a full year (compared with the current forecast return of 0.55%), or to reduce costs and liabilities at an equivalent rate, whilst at the same time maintaining adequate cash balances for operational purposes and not exposing the capital value of investments to unnecessary risk. However because 60% of the current portfolio is held for more than 6 months and some of the higher return generating options have a lead-in time of 1-2 years before generating a return, the impact in the shorter term will be likely to be more modest depending on the options within the strategy.

GOVERNANCE

49 Innovation within the financial services industry leads to a constantly changing market and the availability of new asset classes, products and financial instruments. The Council needs to be able to operate flexibly, and make decisions quickly, in order to benefit from the opportunities presented by this environment and to successfully implement the changes outlined above.

50 The day to day aspects of treasury management are delegated to the City Treasurer under the Council's Scheme of Delegation , but the Integrated Investment Framework will:

- Enhance the effectiveness of decision making
- Embed a good risk culture that encompasses appropriate due diligence, option appraisal and an atmosphere of open debate
- Ensure that a holistic approach is taken towards managing the Council portfolio

51 The Investment Executive will monitor, report and advise on the investment portfolio and opportunities as they arise. The Investment Executive will comprise:

- the Cabinet Member for Finance, Property and Corporate Services and the Chair of the Audit and Performance Committee
- the City Treasurer, Tri-Borough Director of Pensions and Treasury, and the Director of Property and Investments
- The Chief Executive and the Executive Director GPH as necessary

52 The Investment Executive will meet half yearly supplemented with ad hoc calls and meetings in times of need of change. Any decisions will be taken by the relevant Cabinet Member or Cabinet.

53 Key information will be reported to Members on a half yearly basis through the half yearly investment reports.

54 Given the complexity of this important area the Council will need to rely on independent experts and advisors. Therefore the Council will engage at least two investment advisors who will:

- provide advice on the current investment market and recommend new products to invest in
- benchmark the Council's performance and identify any areas where there is scope for improvement

DUE DILIGENCE

55 Due diligence is any process undertaken to:

- investigate a business or person prior to signing a contract.
- record the reasons behind an investment decision
- demonstrate that the Council is acting responsibly and has adequately assessed the balance between benefit and risk.

56 Due diligence should be undertaken on all investments in a consistent manner, albeit proportionate in terms of the value and complexity of the financial instruments being considered, and their relative impact on the Council's finances as a whole

57 For a simple instrument such as a corporate bond, for example, a few paragraphs summarising risks and expected rewards together with analysis from an advisor would suffice. A more complex product might require specialist assistance, comprehensive risk analysis and work undertaken to monitor and re-assess risks and performance regularly.

58 The Council has developed a framework for undertaking due diligence which promotes consistency and rigour whilst at the same time allowing for flexibility and a proportionate approach. It is based around the "6 P's" principle as set out in Appendix A.

59 Whilst this framework does not rule out in principle any specific type of investment, all proposals will be considered in terms of:

- reputational risk to the Council
- social, environmental, ethical and sustainability considerations.

OPTION APPRAISAL

60 An important aspect of due diligence is assessing the value for money offered by a new investment. Option appraisal will be undertaken for all new investments as part of the due diligence process, on a proportionate basis that reflects investment value, expected duration, and anticipated level of risk. It will be:

- outcome focussed
- structured around the key questions set out in Appendix B
- take non-financial benefits into consideration where relevant.

61 Option appraisal should focus on the opportunity costs of the investment and a comparison against returns offered by other products or opportunities realistically available, rather than achievement of a "theoretical" rate of return.

FINANCIAL IMPLICATIONS

62 This report identifies the potential for improved returns aspiring to match inflation in a full year compared with the current forecast return of 0.55%. Approval and implementation will result in an integrated framework for managing the Council's investment portfolio which supports improved returns and a more effective contribution to Council priorities and services.

LEGAL IMPLICATIONS

63 Any investment income from the car park funds must be continue to be distributed in accordance with section 55 of the Road Traffic Regulation Act 1984.

Legal implications drafted by Rhian Davies, Chief Solicitor (Litigation and Social Services)

CONCLUSIONS

BACKGROUND PAPERS

Overview and scrutiny

Treasury performance half year review – 9th January 2017

Council

2017/18 Treasury Management Strategy – March 2017.

Council Tax and Capital Strategy – March 2017

2016/17 Statement of Accounts – April 2017

Consultants Reports

Camdor Report "Investment Strategy Framework" June 2017

Deloitte Report on General Investment Principles June 2017

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:

Peter Worth, Interim Tri-Borough Director of Treasury & Pensions

Tel: 0207 641 7689

Email: pworth@westminster.gov.uk

APPENDIX A – DUE DILIGENCE FRAMEWORK

1. The Council has developed a framework for undertaking due diligence which promotes consistency and rigour whilst at the same time allowing for flexibility and a proportionate approach. It is based around the “6 P’s” principle as set out below:

Powers

a) what legal powers is the Council relying on to make the investment being proposed;

b) Has legality been considered in terms of the underlying nature of the activity, as well as the instrument or vehicle itself?

c) Have capital financing and MRP requirements been considered?

Permission

2. Does the Council need permission from the Secretary of State or anyone else before progressing this investment e.g.:

a) Members – and if so who (committee with delegated authority, cabinet or full council)

b) Chief Officer if delegated decision making powers apply

c) Consultation with the public or staff may be a legal requirement

d) Does the proposal involve legal negotiations with a contractor or 3rd party?

Policy

a) Does the proposal fit within the Council’s policy objectives in terms of what it is trying to achieve?

b) If not does the proposal need to go to Full Council for approval?

Payment

a) How is the proposal to be funded both in terms of initial and on-going costs (i.e. is there a budget – revenue and capital)

Procurement

a) Has the proposal been subject to the Council’s procurement procedures?

b) Does it need to go through formal tendering or does it need a waiver?

c) Are there any State Aid or EEC implications?

Press

a) What spin could the press put on the proposal?

b) Might the Council be exposing itself to criticism?

3. Whilst not all of the above considerations will apply to every investment scenario, this framework will be applied in principle to every investment proposal, with results reported to members for consideration.

APPENDIX B – OPTION APPRAISAL

1. Option appraisal should be structured around the following questions:

Key questions	Issues to consider
How is the proposal to be funded in terms of initial and ongoing costs?	Is there an existing budget or is virement required? Does the proposal provide any added value to the Council in terms of improved efficiency, budget savings or reduced costs?
What is the opportunity cost of using up these cash resources?	What is the expected length of the investment period? What additional costs are there (transaction costs, due diligence etc.) in addition to the capital investment itself? Does the expenditure count as a capital transaction under capital accounting regulations? If so what are MRP/CFR implications?* Is there an exit strategy? Will this involve additional costs? Is there a risk of permanent impairment in the capital value of the investment?
Does the proposal link to corporate objectives and statutory services:	If so how does it compare to the cost of achieving similar outcomes? Will this delivery option increase or decrease outcome or cost risk?
Is the proposal is solely to generate income?	What key assumptions and sensitivities are contained in the financial model? * What are best, worst and medium case scenarios? How do these compare to other investment opportunities within the same investment allocation?
What transaction, professional and management costs need to be considered?	Consider for example: Independent advice and "experts" Legal fees/stamp duty Tax, audit, accountancy, secretarial Officer time in attending meetings etc.

* To promote consistency when evaluating potential investments, any MRP set aside requirements for property or alternative investments will be calculated using the annuity method rather than on a straight line basis.

APPENDIX C - Prime yields for commercial property

	Feb 16	Jan 17	Feb 17
West End offices	3.00%	3.25%	3.25%
City Offices	4.00%	4.25%	4.00%
Offices M25	5.00%	5.25%	5.25%
Provincial Offices	4.75%	5.25%	5.25%
High Street Retail	4.00%	4.00%	4.00%
Shopping Centres	4.25%	4.50%	4.50%
Retail warehouse (open A1)	4.50%	5.25%	5.25%
Retail warehouse (restricted)	5.25%	5.75%	5.75%
Foodstores	5.00%	5.00%	5.00%
Industrial distribution	4.50%	5.00%	5.00%
Industrial multi-lets	4.75%	4.75%	4.75%
Leisure Parks	5.00%	5.00%	5.00%
Regional Hotels	5.50%	5.25%	5.25%

Source: Savills